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CABLE TELEVISION DIVISION

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March 21, 2006

Alicia Matthews, Director
Cable Television Division
Massachusetts Department of Telecommunications and Energy
One South Station, 4 East
Boston, MA 02110

Re: Petition of Verizon New England Inc. for Adoption of Competitive License Regulation

Dear Ms. Matthews:

I am writing to follow up on the press release and petition filed by Verizon late last week with the Department in which Verizon asks that the Department establish a deadline of 90 days for local franchise issuing authorities to consider requests for a cable franchise. Although Verizon's press release indicated that the proposal would "not otherwise change the role of local governments in negotiating and awarding franchises to competitive video service providers," the petition proposes that the Division amend its procedure for appeals of a franchising decision, or a failure of an issuing authority to issue a decision within the proposed ninety days, to provide for *de novo* review by the Division, on the basis that the Division "is in as good a position at the issuing authority to determine whether the applicant for a competitive license is qualified to operate a CATV system and whether the applicant has net the substantive standard for issuance of a final license…." Presumably, it is Verizon's belief that the Division could issue a franchise (or require a local issuing authority to do so) if it finds, after such review, that the applicant is qualified to hold a franchise. (Petition at 7-8)

Setting aside whether such a *de novo* review by the Division and grant of a franchise is authorized by the Department's authorizing statutes and Massachusetts law, which reserves for local issuing authorities the exclusive right to issue cable television licenses, MGL Ch. 166A, RCN – as a competitive provider that successfully entered the market – believes the current regulatory regime has worked and is working, and that there is no justification for the relief that Verizon is seeking. As Verizon itself noted, RCN provides cable service in 16 greater Boston communities. (Petition at 3 n.6.) Nationwide, RCN operates under over 100 local franchises and open video system agreements.

RCN, like other pioneering broadband overbuilders, entered the broadband market in the late 1990s in response to Congress' invitation in the 1996 Telecommunications Act, and in reliance on the pro-competitive intent of that Act. RCN's cable franchises have produced substantial benefits for both consumers and local communities. RCN provides fiber optic data networks, channel capacity for local use, financial support for public, educational, and governmental access programming, cable drops to public buildings, libraries, and schools, and other contributions to the communities it serves. In addition, RCN provides substantial revenues to local communities in the form of franchise fees that typically equal 5% of gross cable revenues.

Unlike RCN, Verizon spent the last decade making sure that the robust local telephone competition envisioned by the 1996 Telecom Act would not materialize, and has essentially sat on its heels with respect to fulfilling its own 1996 promises to develop video service offerings in competition with the incumbent cable companies. Now that it has finally decided to make the investment in offering video programming over its networks, it is telling you (and federal and state regulators and legislators all over the country) that local franchise authorities are imposing significant impediments to its ability to construct and operate their proposed cable television networks. This is wholly inconsistent with RCN's experience and, importantly, it is also inconsistent with what Verizon's management is telling Wall Street. Indeed, when asked on a Wall Street earnings call about Verizon's progress on franchising, Verizon's Chairman and CEO, Ivan Seidenberg, Mr. Seidenberg stated:

> Yes, on that we feel that we're making good progress here. We have a few more franchises working. We have plans for several hundred more to file.[1]

On February 27, 2006, Verizon again told Wall Street something quite different when Doreen Toben, Verizon's Executive Vice President and CFO responded at the Bear Steams Annual Media Conference to a question about how many of the 6 million homes expected to be passed by Verizon's fiber optic "FIOS" network this year will be ready to be marketed with television programming. Ms. Toben stated:

> I think the ultimate number we've said is about 15 to 18 million homes past [sic]. On marketable, it is a TV - what we have said now was he have about 1 million homes that we have franchises for. That doesn't mean we are actually marketing to 1 million homes yet. And we said - at the end of the year three or four. So we have been very successful with our franchising lately and so they have been starting to kick in. We haven't given how much we think we will have by the end of the year. What we have said is we are comfortable that we will the [sic] able to meet our targets and we will have enough franchising for where we're building to be able to sell.[2]

Clearly, obtaining local franchises is not the primary impediment to video competition. To date, there is little evidence that Verizon has committed the necessary resources to obtain the local franchise agreements it needs, or that it has been unreasonably refused where it has sought franchises. As Mr. Seidenberg told investors on January 26, Verizon has not even begun to

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Final Transcript, VZ - Q4 2005 Verizon earnings Conference Call, Jan 26,2006 at p. 11, excerpt appended as Attachment 1.

2 Final Transcript, VZ - Verizon at Bear, Steams & Co. 19th Annual Media Conference, Feb. 27, 2006 at p. 8, excerpt appended as Attachment 2 (emphasis added).

apply in many of its local markets. Instead, Verizon has focused substantial resources on lobbying the FCC, Congress, and state legislatures and regulators for relief from local franchise requirements. Where it has truly wanted agreements, and has deployed the necessary resources, it appears that Verizon has been receiving local cable franchises quickly and with little difficulty. Indeed, Verizon has reportedly succeeded in negotiating 3-year "escape clauses" in many of the agreements – including some in Massachusetts – that it has obtained thus far. This clearly implies that Verizon has not been forced into "take it or leave it" agreements by local franchising authorities, but rather has been successful in negotiating on its own terms.

Certainly, substantial barriers to cable competition exist, but these barriers do not include the local franchise process as Verizon would have you believe. Over the past decade, the incumbent cable operators have undertaken extensive efforts to shore up their dominant market position in anticipation of competition by "clustering" their geographic market concentrations. This has enabled them to engage in predatory pricing in which deep discounts are offered only to customers located in areas served by a competitor that are in effect subsidized by higher rates paid by other subscribers. In addition, the incumbents have amassed control over huge amounts of "must have," non-duplicable programming such as regional sports, children's, and film library content. This combination means that incumbent operators like Comcast can control the most essential input to a competitor's video business either through their own vertical programming ownership or their market power over unaffiliated programmers. These efforts have been and will continue to be the real barriers to competition – and affect all new competitors, be they overbuilders like RCN and Verizon or satellite providers like Echostar an DirecTV.

Accordingly, RCN has been suggesting to the Congress and to the Federal Communications Commission that rather than giving Verizon and other the incumbent local telephone companies a free pass by taking away the ability of local governments to negotiate franchises, they should devote their resources to addressing the real, and systemic barriers to entry and full and fair competition that have been erected by the incumbent cable operators through their predatory pricing and their vertical integration with, and/or market based control over, programming providers. To the extent that the Division decides to undertake a review of its rules to determine whether it can take a more active role in promoting full and fair competition, we would respectfully suggest that it concentrate on these very real barriers and not the franchise relief sought by Verizon. We would welcome an opportunity to discuss these issues with you further.

Very truly yours,

Richard Ramlall

Richard Ramlall
Senior Vice President, Strategic,
External and Regulatory Affairs

Attachments
cc: Mr. Thomas K. Steel

Attachment 2

FINAL TRANSCRIPT

Thomson StreetEvents℠

VZ - Verizon at Bear, Stearns & Co. 19th Annual Media Conference

Event Date/Time: Feb. 27. 2006 / 10:15AM ET else is to see how the -- the conversation that started the other day materializes. To the extent, however, that there is a change of a view coming from Vodafone, we clearly would be interested in increasing ownership of Verizon Wireless, whether in stages or actually acquiring 100% of it. I would add that we also recognize that the put option is not the preferred vehicle for Vodafone to facilitate any transaction. That was exactly the issue we had when they were considering the purchase of AWE. So -- so, Simon, we are very open and willing to consider negotiation around that to make sure that it's efficient for both sides and it's -- we can maximize value for both parties. You know, when you think about it, Verizon Wireless has gone through an extraordinary run here. It's -- it's created a lot of value for both sides. And that I think that it's a good time to think about this and so we would stand ready to work on that. One other point that -- that I would make is that, as we think about this, just so that Verizon shareholders would understand how we think about this, Doreen and I have -- have talked about this, and our view is to the extent possible, we would try to do anything here if it was -- if it was given to us by Vodafone, with as much cash as possible. And so, for example, like everybody understands, the Omnitel ownership, perhaps the -- the divestiture of VIS would all be -- be part of how we would think about funding, funding the whole operation. So, I think we need to give Vodafone some room to think through what they want to do. But our position, Simon, has been what it's always been. If the opportunity came to be, we would be -- we would stand ready to work with them.

Simon Flannery - *Morgan Stanley - Analyst*

Good. And on the video franchising?

Ivan Seidenberg - *Verizon - Chairman, CEO*

Yes, on that we feel that we're making good progress here. We have a few more franchises working. We have plans for several hundred more to file. There've been a couple of break throughs in several states, in which legislatures have taken votes on it. We even have one state, believe it or not, where the -- where the local cable association has taken a positive position on -- on where we are. So, I think, Simon, the way we see this, is we're going to continue the -- the sort of community by community approach that we've started. But we feel we are getting traction in several states. We're taking a look at the broader picture. I'm sure you know that next week there's a hearing in Washington on this subject. So, I think there's a lot of momentum building, and we're taking the position we're going to do this step by step, but also look for the sort of broader policy opportunity and we feel that the -- the stars are lining up for public officials to take a more aggressive stance on this over the next several months.

Simon Flannery - *Morgan Stanley - Analyst*

Great. Thank you.

Ron Lataille - *Verizon - SVP - IR*

Thanks, Simon. Operator next question please.

Operator

Jeff Halpern, Sanford Bernstein.

Jeff Halpern - *Sanford C. Bernstein & Company, Inc. - Analyst*

Good morning, guys. Ivan, if I could just follow up -- two questions, if I could follow up on your answer to Simon's question just now. I was wondering if you have any sense of what the difference in timing looks like between a state level approval process for franchising versus a municipal -- municipality by municipality one? And then, Doreen, is there any way you can give us a

Attachment

FINAL TRANSCRIPT

Thomson StreetEvents℠

VZ - Q4 2005 Verizon Earnings Conference Call

Event Date/Time: Jan. 26. 2006 / 8:30AM ET

QUESTIONS AND ANSWERS

Michael McCormack - *Bear Stearns - Analyst*

We have a fairly brief time here. I'm going to (inaudible). A couple questions. One on Wireless -- what was the increased risk during minutes usage per customer on average roughly -- was it mid teens and low teens?

Doreen Toben - *Verizon Communications - EVP and CFO*

About 650 now and it was maybe 590 in (multiple speakers).

Michael McCormack - *Bear Stearns - Analyst*

So 10%? Okay. I also wanted to ask you (multiple speakers).

Doreen Toben - *Verizon Communications - EVP and CFO*

About -- give or take a little bit.

Michael McCormack - *Bear Stearns - Analyst*

On FiOS, ultimately how many cashings are you looking to have in some out year? Of the 6 million this year, how many of those homes will be ready to be marketed with TV? In other words, you've gotten approval from somebody?

Doreen Toben - *Verizon Communications - EVP and CFO*

I think the ultimate number we've said is about 15 to 18 million homes past. On marketable, it is a TV -- what we have said now was we have about 1 million homes that we have franchises for. That doesn't mean we are actually marketing to 1 million homes yet. And we said -- at the end of the year three to four. So we have been very successful with our franchising lately and so they have been starting to kick in. We haven't given how many we think we will have by the end of the year. What we have said is we are comfortable that we will the able to meet our targets and we will have enough franchising for where we're building to be able to sell.

Unidentified Audience Member

Just go to your pricing strategy on the video side. What is it today? If you compare a bundle of the three services, the triple play for you guys versus the cable operators in your market, and what are some of your longer-term views in terms of whether you guys are going to -- where you are going to price video product specifically?

Doreen Toben - *Verizon Communications - EVP and CFO*

I would say the pricing strategy is to be competitive. What you will typically see in each market is different but you typically see the satellite folks at the lower and the cable guys higher. Our strategy so far has been to come in slightly under the cable but more in line depending on the satellite. However, it is really different on the packages. So our initial offer is $39.95, which is an all-digital 185 channels. It's an incredible offer; however if you start to add your premium services, now when you look at an apples-to-apples it becomes -- each market is so different. I would suggest that it will be a competitive strategy as opposed to, say, a very low-priced strategy.